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Voluntary Public

Date: 11/9/2016

GAIN Report Number:

Latvia

Post: Warsaw

Latvian dairy industry still under pressure of Russian export ban.

Report Categories:

Dairy and Products

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Report Highlights:

It is estimated that in 2016 milk deliveries in Latvia will be one percent lower than in the previous year. The Russian ban reduced export demand and resulted in a drop of farm-gate milk prices. It is estimated that in 2016 higher share of milk production will be processed into cheese and butter which are in demand on the export market. In response to the European Commission's market intervention measures till August 16, 2016 Latvia placed 4,763 MT of Non Fat Dried Milk (NFDM) into EU intervention program.

General Information:

Production

It is estimated that in 2016 milk deliveries in Latvia will amount to 970,000 MT, a one percent decline compared to 2015. It is estimated that 800,000 MT of milk (82 percent of total milk production in Latvia) is delivered to dairy plants for further processing. In the first seven months of 2016 milk deliveries in Latvia increased by 2.2 percent in comparison to the same period of 2015. It is expected that towards the end of the year milk production will slow down as a result of low farm-gate prices for milk and reduced export demand for dairy products. It is forecast that supplies of milk will remain stable in 2017. In August 2016 average farm-gate prices for milk amounted to 19 Euros per 100 kilograms of milk, a 10 percent decrease in comparison to August 2015. Farm-gate milk prices in Latvia are the second lowest in the European Union.

Out of 800,000 MT of milk delivered to dairies, 120,000 MT is processed into liquid milk for direct consumption, 440,000 MT is processed into cheese and the rest is processed to fresh products and milk powders or exported as raw milk. There are only 4 plants producing milk powders in Latvia, so according to the EU law their production data is confidential. A daily capacity for production of NFDM and WDM (Whole Dry Milk) amounts to 750 MT. In Latvia there are 50 milk processing plants. However, the 6 largest companies process 65 percent of milk delivered to dairies. Dairy processing plants cooperate with farmers through preferential loans which can be paid by milk deliveries. In 2015 cheese production amounted to 41,130 MT and was 16 percent higher than a year ago. It is expected that as a result of reduced exports, production of cheese in 2016 will decline in comparison to 2015. In the first 8 months of 2016 output of cheese decreased by one percent. A drop in raw milk prices in the first half of 2016 reduced profit margins in dairy production resulting in reduction of national herd of dairy cows. At the beginning of 2016 dairy cow inventories amounted to 162,000 head and were just 4,000 head below the level of 2015. It is expected that cow herd will continue to decrease towards the end of 2016 and in 2017. In 2015, the average annual milk production was 5,905 kg per cow.

According to the Latvian Association of Dairy Processors out of total milk produced in Latvia 35 percent is used for domestic market (milk equivalent), 32 percent is exported as raw milk to Lithuania and Poland and the remaining 33 percent is exported as dairy products.

Trade

In the first seven months of 2016 value of Latvian exports of dairy products were 24 percent lower than in the same period of previous year. The decrease of exports resulted from the Russian ban which reduced exports to Russia and also from lower demand for dairy products within the EU. Major export destinations within the EU are Lithuania, Germany and the Netherlands. In the first seven months of 2016 the value of imports of dairy products declined by 5 percent. Major suppliers of dairy products were Lithuania, Estonia and Poland. Latvia also exports NFDM, WDM and hard cheese to almost 30 countries.

Stocks

In response to the European Commission's market intervention measures till August 16, 2016 Latvia placed 4,763 MT of NFDM into EU intervention program and 596 MT of NFDM and 606 MT of butter into the PSA stocks.

End of Report.